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Monetarism

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25. September 2011

Online at <http://mpra.ub.uni-muenchen.de/33707/>

MPRA Paper No. 33707, posted 25. September 2011 / 15:10

The Monetarism

Abstract: *The monetarism, as I have tried to outline in this work is based on the ideas of the American professor Milton Friedman, who tried to revitalize and reconfigure the old quantity theory of money. These ideas were transposed and discussed by authors like Ion Pohoăț, Tiberiu Brăilean or Al. Tașnadii and Claudiu Doltu in the works that I have guided the construction of this essay. Thus we observ that one of the basic principles of Friedman's conceptions was related on budget actions rejection. Actions which in the absence of such money, have little influence on total spending, output and prices, on the significant variables such as macroeconomic. So find a substantive argument in favor of interlocking key economic policies, which can not exist without the other and some which ensures sustainability of state institutions and the economy.*

Keywords: money, prices, liberalism, inflation, unemployment.

JEL Classification: E4,E41, E42, E52, N1, P24

The monetarism represents the first product, the most polished and resonant of the Chicago school. [Pohoăț, 1993]. Discussed, analyzed and turned on all sides, especially by economists from abroad, there possibility to believe that further investigations are no longer the point; aspect which I consider false and unheeded since the beginning of this essay. About such a theoretical system, current of thought and practice whatever write action is never quite enough. Conceptual subtleties and willingness to implement in practice, make research subject can not be considered complete again. In addition, each generation of researchers, politicians have a duty to express their opinion about what was, is and will be monetarism, judged primarily by the real need to respond promptly and effectively to specific situations in Economics. To study economic phenomenon without knowing and analyzing of monetary phenomenon, is the same as playing Hamlet without the prince. [Brăilean, 1998]

Monetary domain is a component of primary importance to the economic system which is constantly tormented by anxiety and uncertainty. Currency can be considered an accurate barometer that records a country's economic fluctuations and fundamental issues that concern present-day human society is expressed largely in monetary terms.

Monetarism emerged as a theoretical reaction to the keynessist orthodoxy, dominant in 50's macro economy. Otherwise, monetarism subscribes to the tradition of the Chicago School, which starting 1930 firmly sustained principles incomparable to any form of keynessism, we outline the most significant:

- competitive market is the best form of economic organization;
- economic components are explained by neoclassical theory of prices;
- State should refrain from changing economy resources.

Thus, the tradition of liberal and monetarist thinking from Chicago was a point of reference to the development of monetarism. The 70's are the glory years of monetarism and also represented the triumph years of the liberalism [Frisch, 1997]. Indeed, the traditional "Keynes recipes", which supported the possibility of reviving the economy coupled by monetary policy from the positive correlations between abundance of money and short-term

economic growth, proved unable to achieve "fine tuning" of the economy. Are undermined in this way the cyclical economic practices guaranteeing growth without price slippage. Practical application of monetarism by liberal governments in a number of countries undoubtedly contributed to the triumph of monetarism. Thus, from the F.E.D. chairman, P. Volcker, to R. Reagan and M. Thatcher and even the IMF experts, the principles of monetarism were found in economic policies dominating replacing Keynesianism before.

Monetarist thinking has its source in the quantity theory of money, but it is an original contribution and specific, with a much wider coverage area. The *monetarism* term was invented Karl Brunner, who also defined by three points monetarist creed [Gaftoniuc, 2000]:

- monetary impulses are determinant in variations of output, employment and prices;
- evolution of monetary mass is the surest indicator to measure the monetary impulses;
- monetary authorities can control monetary mass developments during economic cycles.

Under the apparent uniformity of monetarism hide different opinions and currents, whose conclusions sometimes diverge. Thus, while Friedman is committed to floating exchange rates, Hayek rule for fixed exchange rates. To better understand this diversity is important mentioning that monetarists agree on: they argue that monetary inflation is always home and that there is a problem of long-term choice between inflation and unemployment, therefore, attempts to support employment through active monetary policy is unnecessary and dangerous at the same time. The current day Monetarism although has starting point monetary orthodoxy, has several branches, which some criticize monetary orthodoxy, and others refine some of it's principles.

The standard monetarism of the Chicago School is deeply marked by the contributions of M. Friedman. Friedman also holds a special place in monetarism because of his dedicated research and analysis that influenced monetarism and the monetary movement in a decisive manner. If you are looking for common elements or principles of monetarism they are embodied in the work of Friedman monetarist orthodoxy symbolizing. For otherwise the Friedman received the Nobel Prize for Economics in 1976 "for his contribution to consumption analysis, monetary history and theory and to demonstrate the complexity of standardization policies " [Aftalion, 1994].

In this context, the contributions of M. Friedman are directed in two directions:

- criticism of Keynesianism, monetarism is a set of statements in direct opposition to Keynesian fiscal policy;
- the introduction of key concepts: adaptive expectations, permanent income theory, the natural unemployment rate, need of monetary policy stability, rejection of cyclical stabilization policies by government control, faith in the economy through market regulation.

About such a system of thought and theory and practice whatever action is never quite write. It has so many subtleties and availability of implementation conceputuale praxis, that research and use it according to time and space will not ever be considered concluded. And then, each generation of scientists and politicians does not have only the right but a duty to give his opinion about what was, is and will be monetarism, judged from the perspective not necessarily universal and generally valid, as the real need, even conjectural to respond promptly and effectively to particular local situations [Taşnadi and Doltu, 1996].

The complexity and size of works which are based on the monetarist current makes almost impossible an analysis which does not leave room for interpretation. In these circumstances I will stop the analysis made by Brăilean, and also Taşnadi and Doltu regarding Friedmanian monetarism. In view of some theorists somewhat arbitrary, one economy can be considered as mist \neg "monetarist" though he admits, as a first approximation of reality, the following eight principles:

1) currency market demand function is stable compared with a limited number of variables; 2) nominal amount of money that exists at a time in an economy is determined mainly by the behavior of monetary authorities \neg behavior; 3) Businesses correct disparities between supply and demand all the money through a reallocation of portfolios of financial and nonfinancial assets; 4) Inflation is essential to generate a higher rate of monetary expansion relative to real economic growth rate ("inflation prosperity"); 5) In a sharp monetary expansion, interest rates will start to grow. It will exceed the previous level because it will incorporate expectations of price increase triggered by the monetary policy. Mutual sentence is true in the case of money supply growth attenuation; 6) There is a "natural rate of unemployment" which merely depends on the structural conditions of the economy. It is therefore impossible for it to be corrected in the long term through countercyclical policies; 7) additional government spending financed by borrowing and / or taxes affect private spending the same size; 8) For a government economic policy is to maintain a consistent rate of monetary expansion consistent with economic noninflationist growth [Taşnadi and Doltu, 1996].

Monetarists accept that these eight principles does not imply that there would not be differences of opinion between them. This divergence is more pronounced than opponents called non monetarists, Keynesian or neo Keynesian.

Friedman is a founder of the famous "Chicago School" of economic thought. He founded the monetarist current related to University of Chicago - where he had teach from 1946 until 1982. In his view, the best contribution that the state can make the economic realm is to minimize intervention in the economic life of the country. Starting with 1935, he had an intense activity in scientific research and teaching economics at the University of Chicago. He worked as an economist during the war and in particular practitioner-statistician mathematician, dealing with tax policy at the U.S. Treasury Department. In response to interventionist views, Milton Friedman, then a young professor at the University of Chicago \neg tries to demonstrate, since the early '40s, the economic importance of money, on the one hand and the ineffectiveness of cyclical type interventionist policies on the elsewhere. This counteroffensive was immediately associated with other researchers, among which we can hold them Karl Brunner (designated by the authorship of "monetarism") and his collaborator Allan Meltzer. For a long time, this new school of economic thought has been marginalized. In many western economic environments (eg, France), his ideas were not taken seriously. Even in the United States, Milton Friedman was known as "radical" (epithet launched by Paul Samuelson, who later was to write "we are all monetarists") [Taşnadii and Doltu, 1996].

Towards the late '60s, suddenly appeared a phenomenon not expected: the simultaneous presence of inflation and unemployment ("stagflation"). Keynesian theory could not explain these new phenomena, especially since they are incompatible with monetarist thesis. From that moment on "monetarism" is gaining momentum, its audience, becoming predominant in many universities, extending itself in political environments. He

will inspire a few 80s government programs, even when public opinion had been not so good ideas and economic theories. Follows a period of intense study under the guidance of renowned teachers such as Frank Knight, Jacob Viner, Henry Simons.

Taşnadi and Doltu begin by demonstrating that monetary policy has no influence in the regime of fixed exchange rates. Thus they argue that in a closed economy "rule of the $k\%$ " allows the authorities to divert the pace of inflation and promote growth of nominal income regularly. This is possible in an open economy and a fixed exchange rate regime because it is known that external balance allows you to adjust supply to demand money. This request for money is therefore endogenous and not exogenous income as Friedman's model.

Causality report of the traditional monetarist school currency- income is reversed and therefore, monetary policy has no influence in achieving internal balance. Instead, it is particularly effective in investigating the external balance. In this sense it determines levels of external balance. We noticed that this is the sign of an imbalance in the money market. For example, excessive currency demand \rightarrow translates into a surplus by foreign capital inflows BC that it entails. Conversely, all the excess money supply will be synonymous with the external deficit in the revised capital leave. It is established that in one case and in the other, money demand is always met by contributions simultaneous internal and external. Consequently, when the authorities give the money market more or less liquid following a policy of domestic credit, more or less generous, they make the external balance scale. Control of domestic credit in an open economy substitute reserve currency control in a closed economy. This facilitates control and external equilibrium and not the internal one as shown in Friedman's prescription.

However, in two specific cases, monetary policy may have a certain efficacy. One is that the country is a country considered dominant. Inflection monetary policy exerts an influence not only on the internal balance of the country in question but also the internal balance of the dominant countries. The other case involves public authorities decide to not only control the domestic supply of credit, but the whole money mass. There is no alternative but to establish a capital control changes necessary as a decrease in external sources of money creation. Logically, the use of a system of flexible exchange rates in the economy should introduce an additional degree of freedom. The introduction of new currency into circulation is really translated by the net surplus of demand in different markets. It follows an increase in prices (and possibly production) within the country and a decrease in marginal rates (from excess demand for currency). This price increase and simultaneous decrease of real exchange rates in the initial recall proceeds. Monetary policy is fully effective, the process of adjusting the work proceeds exactly as in a closed economy. However, supporters of international monetarism do not consider fully satisfied the process of price adjustment. As previously emphasized, the medium developed countries, the return on cash balance may well require an adjustment in the nominal amount of money, where prices are more rigid [Taşnadi and Doltu, 1996]. In this case, the money market can not be fixed total amount of external balance, but the exchange rate.

With regard to the opinion of Brăilean, we can not emphasize the ease and original way of approaching the subject. It argues that Friedman recognizes the existence of short-term relationship, such as transitional between inflation and unemployment. Following his opinions, the unexpected variations of the interest rate cores cause short-term inflation,

fluctuations in the levels of unemployment. As the John Burton shows: "Friedman's analysis has important consequences for economic policy: he admits that it is allowed monetary authorities to hope maintaining the effective rate of unemployment beyond its natural rate during a considerable period, only condition being that they accept incessantly accelerated inflation "[Brăilean, 1998]. In these circumstances inflation expectations could not catch up with the effective actual inflation and monetary authorities would succeed in \rightarrow "abuse of all world ".

According to Friedman's analysis, the possibility to reduce unemployment for inflation is much lower than Keynes had argued in his time or Phillips did. The last two both examine, one theoretical, the other on the empirical level, the inflation-unemployment dilemma in the short term, all ignored by long-term perspective. Friedman's position calls for "gradual " close to monetary control of inflation. Monetary deceleration should be put into practice in a progressive and well-orchestrated in advance, without which inflation expectations (derived from past experience) "will overreact" causing higher than the unemployment that the economy had known before. Friedman's automaticity may open doors but to undesirable social phenomena, among which emerges from the threat of increasing unemployment. Friedman supported the idea of a banking system reform, by eliminating the ability of banks to create credit and Central Bank to carry out rescont. Then, because the money mass was acting on prices through consumption, Friedman tries to explain its laws. He believes that having his own consumption trend over time, emancipated from the influence of real investment growth. After Friedman, general consumption depends on "permanent income" determined as a weighted average of current levels and past levels of income. Regarding inflation, Friedman sees in it a purely monetary phenomenon, caused by excess money supply in circulation. Today but is widely accepted idea that there is an entire complex of causes that generate the phenomenon of inflation, so that's reducing him one does not seem to match reality. In the economic life, so complex and so hard to enter in it's complexity, little have a single cause. Milton Friedman argues for a fair determination of the relationship between money supply in circulation and prices, which would allow - his opinion - monetary stability, which is the essence of economic stability. Friedman argues that the Keynesian multiplier would reflect, indirectly, changes in money supply and therefore it is practically useless economic analysis is much more stable velocity of money. The Friedman monetarism version was designed in a closed economy model, as was the U.S. economy during 1947 -1971, under the conditions of existence and operation of fixed exchange system established at Bretton-Woods. In fact, his analysis seems aimed at Friedman made in his works does not contradict the statement above. The volume of monetary circulation is not the only factor considered in the construction to theoretical and empirical in his research. But it is the element which is given utmost importance.

A basic thesis supported by Friedman is that there are long term, a close link between the amount of money per unit of product, mainly driven by free market transactions and price levels. This means that the evolution of money in circulation \rightarrow whose legislation depends to a large extent, the nominal social product and national income. All long-term - says Friedman - income velocity of money is relatively stable, being inversely proportional to the size of real income. Another important idea is that measures the monetary authorities take for monetary policy to influence demand are delayed, delay can not be greater or less than the economic

cycle to another. Because of these gaps of time - Friedman claims – anti-cyclical policies can not lead to stability. Chicago school chief proposes, in response, automatically increasing the mass of money in circulation annually a certain percentage (5-6%), percentage to be maintained at the same level, that the idea of automatism manifestation of free market economic development . Specific content of monetary policy would be so in a fixed annual rate of increase in the amount of money, rate defined by the Parliament and which should be applied to the monetary base [Brăilean, 1998].

Conclusions

Perhaps Friedman's success, his great success, beginning in 1979 when together with his wife Rose have written the book "Free to Chose" - which is implemented in a famous TV series in six episodes, aired in late '94 by private television station Tele 7 abc. The show, presented by Milton read and watched himself was in England, Japan, Australia, Canada and other countries, and the book was translated and distributed worldwide.

In this paper Friedman expresses with his well-known force of persuasion the mirage, the miracle that America has established its inception and why not admit that the fascination exercised today, history and political and economic foundations of American State and its role in relation to individual initiative in terms of freedom however to choose their own way of life, freedom of action or rather the individual freedom of choice, the possibility of movement and action of the rule of law which one is he represented America. Since the appearance of the book since we can not talk about America past 18 years, but its beginnings are treated especially [Taşnadi and Doltu, 1996].Friedman shows that the choice of the individual is beneficial for society, that freedom creates collaboration and cooperation between individuals, that there is no intention in the orientation required goals and individual goals to enable cooperation and selfishness instead of each individual , and therefore wish to choose that it does, is a selfish benefit.

The monetarist Chicago School provided the main economic advisers to the republican administration which came to power in 1968, some of his theses were the basis for economic policies promoted by other Western governments, and today it has echoes and followers in many countries, especially in Germany and Switzerland, where liberal traditions are deeply rooted. The refined form of quantitative theory that says Friedman, still wishes to be a theory of price determination. But he is not absolutisizing, that is to say that only the amount of currency matters. Notable in this regard is the following statement: "We have always insisted that the money have considerable importance to the nominal level of development but not real level regarded trough a long term perspective. The tendency of neglecting this limitation and create a scarecrow saying that after our design, traffic money volume only important in economic development. The latter is an "absurd position that in fact I never joined" [Brăilean, 1998].In a way, Friedman recognizes so that harmonious economic growth and price stability can not be achieved simply by handling money and the measures required for this complex, the whole economy.

Friedman's monetarism believes that all the trends of economic life (and first of all nominal income and the prices) can and should be conducted by simply adjusting the amount

of money, money supply, which is seen as a key factor of monetary policy and monetary policy is seen as having a role to play than fiscal policy. It is clear - writes Friedman - that monetary policy that I embraced it - a rate of increase in the amount of money regularly - my preference is closely related to a limited role of government authorities, and in areas where their intervention is indispensable \rightarrow pension are for strict regulation of it, as far as possible

Probably that we are still suffering and I think we need to overcome patterns of the Anglo-Saxon model that primary redistribution mechanism monetary comes to the rich financial and influential, including countries in this situation and the many secondary redistribution without wealth or significant deposits securities. All must work together, individuals and countries to support the growth and periods „ boom " economy, but also the lowering of economic activity-shock decision by the relevant authorities must take. Monetary policy is unable by itself to recover (such as the present period) or to boost the national economy. It is necessary intertwining with other macroeconomic policies, especially with the budget, to ensure balanced development of economy, of course, having to fight against inflation and unemployment, while maintaining a stable ratio as between production and consumption, between income and expenses.

Punctually talking of monetarism, economic theory and practice of origin is liberal, but in these days, we can notice how the state is the one that occurs more and decisive economic destinies of the world, from the first world economy, which may affect intervention long-term development of States. Very representative institutions for the banking system (we consider EDF) were never penetrated by the substance of the monetarism, the label applied to the political. Britain abandoning monetarism and Keynesian origins back to the policy of recorded periods of economic boom, which partially happened in the U.S., which confirms the failure of what he wanted to impose in practice by Milton Friedman theory was revolutionary.

The whole though and economic practice of the developed world countries (USA, UK) was carried out, so in recent decades, from Keynesian Revolution and Counter-revolution monetarist.

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